

VANGUARD FINANCIAL EDUCATION SERIES®

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# Practical help for a smoother transition to retirement

Hanford Site



# Agenda

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- Getting ready for retirement.
- Catching up on savings.
- Covering a shortfall.
- Investing for retirement.
- Your glide path to retirement.
- Your action plan.

SECTION: 1 2 3 4 5 6

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# Getting ready for retirement



What do you want to do in retirement?



# Will you have enough money?

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- How much are you spending today?
- How will your expenses change in retirement?
- Where will the money come from?
- What will Social Security pay you?
- How long will your money last?

# How much are you spending today?

## Monthly expenses

		Current expenses	Change + or –	Retirement expenses
Savings	Emergency savings			
	Retirement savings			
	College savings			
	Contingency savings			
	Other savings			
	<b>1. Total savings</b>			
Housing	Mortgage/rent			
	Real estate taxes*			
	Other			
	<b>2. Total housing expenses</b>			

\*Do not include if these expenses are part of your mortgage payment.

# How will your expenses change in retirement?



Health care

Hobbies

Travel

Dining out

Taxes

Commuting/  
cafeteria

Work clothes

Savings

# Where will the money come from?

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- Employer plans.
- IRAs and other personal savings.
- Social Security.



# What will Social Security pay you?

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- Reduced benefits as early as age 62.
- Full benefits at full retirement age.
- Enhanced benefits up to age 70.

# Are you retirement ready?



# 1 What will your retirement cost?

	Jim and Maggie	You
<b>1a. Current cost of living.</b>	<b>\$48,500</b>	<b>\$</b>
1b. Changes (up or down) in retirement.		
1c. Estimated first-year retirement expenses in today's dollars (line 1a – line 1b).		

The information and figures in the Jim and Maggie case study are hypothetical and for illustration only.

# 1 What will your retirement cost?

	Jim and Maggie	You
1a. Current cost of living.	\$48,500	\$
<b>1b. Changes (up or down) in retirement.</b>	<b>– \$7,960</b>	<b>\$</b>
1c. Estimated first-year retirement expenses in today's dollars (line 1a – line 1b).		

The information and figures in the Jim and Maggie case study are hypothetical and for illustration only.

# 1 What will your retirement cost?

	Jim and Maggie	You
1a. Current cost of living.	\$48,500	\$
1b. Changes (up or down) in retirement.	– \$7,960	\$
<b>1c. Estimated first-year retirement expenses in today's dollars (line 1a – line 1b).</b>	<b>\$40,540</b>	<b>\$</b>

The information and figures in the Jim and Maggie case study are hypothetical and for illustration only.

## Table A: Factoring in inflation

Years until retirement	Inflation factor*
1	1.04
2	1.08
3	1.12
4	1.17
5	1.22
6	1.27
7	1.32
8	1.37

Years until retirement	Inflation factor*
9	1.42
10	1.48
11	1.54
12	1.60
13	1.67
14	1.73
15	1.80

\*Assumes a 4% annual inflation rate.

# 1 What will your retirement cost?

	Jim and Maggie	You
<b>2. Inflation adjustment.</b>	<b>1.48</b>	
3. First-year retirement expenses adjusted for inflation (line 1c x line 2).		

# 1 What will your retirement cost?

	Jim and Maggie	You
2. Inflation adjustment.	1.48	
3. <b>First-year retirement expenses adjusted for inflation (line 1c x line 2).</b>	<b>\$60,000</b>	<b>\$</b>



## 2 Determine your retirement income

	Jim and Maggie	You
<b>4. Estimate annual Social Security benefits.</b>	<b>\$18,000</b>	<b>\$</b>
5. Estimate annual pension benefits.		
6. Estimate loss of purchasing power on pension benefits.		
7. Estimate loss of purchasing power (line 5 x line 6).		
8. Total benefits (add lines 4 and 5 and subtract line 7).		

## 2 Determine your retirement income

	Jim and Maggie	You
4. Estimate annual Social Security benefits.	\$18,000	\$
<b>5. Estimate annual pension benefits.</b>	<b>\$10,000</b>	<b>\$</b>
6. Estimate loss of purchasing power on pension benefits.		
7. Estimate loss of purchasing power (line 5 x line 6).		
8. Total benefits (add lines 4 and 5 and subtract line 7).		

## 2 Determine your retirement income

	Jim and Maggie	You
4. Estimate annual Social Security benefits.	\$18,000	\$
5. Estimate annual pension benefits.	\$10,000	\$
<b>6. Estimate loss of purchasing power on pension benefits.</b>	<b>35%</b>	<b>%</b>
7. Estimate loss of purchasing power (line 5 x line 6).		
8. Total benefits (add lines 4 and 5 and subtract line 7).		

## 2 Determine your retirement income

	Jim and Maggie	You
4. Estimate annual Social Security benefits.	\$18,000	\$
5. Estimate annual pension benefits.	\$10,000	\$
6. Estimate loss of purchasing power on pension benefits.	35%	%
<b>7. Estimate loss of purchasing power (line 5 x line 6).</b>	<b>\$3,500</b>	<b>\$</b>
8. Total benefits (add lines 4 and 5 and subtract line 7).		

## 2 Determine your retirement income

	Jim and Maggie	You
4. Estimate annual Social Security benefits.	\$18,000	\$
5. Estimate annual pension benefits.	\$10,000	\$
6. Estimate loss of purchasing power on pension benefits.	35%	%
7. Estimate loss of purchasing power (line 5 x line 6).	\$3,500	\$
<b>8. Total benefits (add lines 4 and 5 and subtract line 7).</b>	<b>\$24,500</b>	<b>\$</b>

### 3 Will you have a surplus or a shortfall?

	Jim and Maggie	You
<b>9. Total benefits in retirement (same as line 8).</b>	<b>\$24,500</b>	<b>\$</b>
10. Estimate expenses in retirement (same as line 3).		
11. Surplus or shortfall (subtract line 10 from line 9).		

### 3 Will you have a surplus or a shortfall?

	Jim and Maggie	You
9. Total benefits in retirement (same as line 8).	\$24,500	\$
<b>10. Estimate expenses in retirement (same as line 3).</b>	<b>\$60,000</b>	<b>\$</b>
11. Surplus or shortfall (subtract line 10 from line 9).		

### 3 Will you have a surplus or a shortfall?

	Jim and Maggie	You
9. Total benefits in retirement (same as line 8).	\$24,500	\$
10. Estimate expenses in retirement (same as line 3).	\$60,000	\$
<b>11. Surplus or shortfall (subtract line 10 from line 9).</b>	<b>– \$35,500</b>	<b>\$</b>



## 4 The future value of your savings

	Jim and Maggie	You
12. Total current savings for retirement.	\$150,000	\$

# Long-term historical investment returns

## 1926–2011

Type of investment	
Short-term reserves	3.6%
Bonds	5.6%
Stocks	9.9%

*Past performance is not a guarantee of future results. When determining which index to use and for what period, we selected the index that we deemed to fairly represent the characteristics of the referenced market, given the available choices. For U.S. stock market returns, we use the Standard & Poor's 90 Index from 1926 to March 3, 1957; the Standard & Poor's 500 Index from March 4, 1957, to 1974; the Wilshire 5000 Index from 1975 to April 22, 2005; and the MSCI US Broad Market Index thereafter. For U.S. bond market returns, we use the Standard & Poor's High Grade Corporate Index from 1926 to 1968; the Citigroup High Grade Index from 1969 to 1972; the Lehman Brothers U.S. Long Credit AA Index from 1973 to 1975; the Barclays Capital U.S. Aggregate Bond Index from 1976 to 2009; and the Spliced Barclays U.S. Aggregate Float Adjusted Bond Index thereafter. For U.S. short-term reserves, we use the Ibbotson U.S. 30-Day Treasury Bill Index from 1926 to 1977, and the Citigroup 3-Month Treasury Bill Index thereafter. Unlike stocks and bonds, U.S. Treasury bills are guaranteed as to the timely payment of principal and interest. Index performance is not illustrative of any particular investment because you cannot invest in an index. All investing is subject to risk. Investments in bonds are subject to interest rate, credit, and inflation risk.*

Source: Vanguard.

# The future value of your savings

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Jim and Maggie assume a return of 8%.

Jim and Maggie's assumed return rate is hypothetical and does not represent the returns available from any particular investment.

## Table B: Savings growth factors

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
1	1.04	1.06	1.08	1.10
2	1.08	1.12	1.17	1.21
3	1.12	1.19	1.26	1.33
4	1.17	1.26	1.36	1.46
5	1.22	1.34	1.47	1.61
6	1.27	1.42	1.59	1.77
7	1.32	1.50	1.71	1.95
8	1.37	1.59	1.85	2.14

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
9	1.42	1.69	2.00	2.36
10	1.48	1.79	2.16	2.59
11	1.54	1.90	2.33	2.85
12	1.60	2.01	2.52	3.14
13	1.67	2.13	2.72	3.45
14	1.73	2.26	2.94	3.80
15	1.80	2.40	3.17	4.18

## 4 The future value of your savings

	Jim and Maggie	You
12. Total current savings for retirement.	\$150,000	\$
<b>13. Current savings growth factor (Table B).</b>	<b>2.16</b>	
14. Future value of current savings at retirement (line 12 x line 13).		
15. Annual contributions to retirement plans.		

## 4 The future value of your savings

	Jim and Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
<b>14. Future value of current savings at retirement (line 12 x line 13).</b>	<b>\$324,000</b>	<b>\$</b>
15. Annual contributions to retirement plans.		

## 4 The future value of your savings

	Jim and Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
<b>15. Annual contributions to retirement plans.</b>	<b>\$4,000</b>	<b>\$</b>

## Table C: Contributions growth factors

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
1	1.00	1.00	1.00	1.00
2	2.04	2.06	2.08	2.10
3	3.12	3.18	3.25	3.31
4	4.25	4.38	4.51	4.64
5	5.42	5.64	5.87	6.11
6	6.63	6.98	7.34	7.72
7	7.90	8.39	8.92	9.49
8	9.21	9.90	10.64	11.44

Years until retirement	Assumed rate of return			
	4%	6%	8%	10%
9	10.58	11.49	12.49	13.58
10	12.01	13.18	14.49	15.94
11	13.49	14.97	16.65	18.53
12	15.03	16.87	18.98	21.38
13	16.63	18.88	21.50	24.52
14	18.29	21.05	24.22	27.98
15	20.02	23.28	27.15	31.77



## 4 The future value of your savings

	Jim and Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
15. Annual contributions to retirement plans.	\$4,000	\$
<b>16. Annual contributions growth factor (Table C).</b>	<b>14.49</b>	
17. Value of contributions at retirement (line 15 x line 16).		
18. Estimated value of total savings at retirement (line 14 + line 17).		

## 4 The future value of your savings

	Jim and Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
15. Annual contributions to retirement plans.	\$4,000	\$
16. Annual contributions growth factor (Table C).	14.49	
<b>17. Value of contributions at retirement (line 15 x line 16).</b>	<b>\$57,960</b>	<b>\$</b>
18. Estimated value of total savings at retirement (line 14 + line 17).		

## 4 The future value of your savings

	Jim and Maggie	You
12. Total current savings for retirement.	\$150,000	\$
13. Current savings growth factor (Table B).	2.16	
14. Future value of current savings at retirement (line 12 x line 13).	\$324,000	\$
15. Annual contributions to retirement plans.	\$4,000	\$
16. Annual contributions growth factor (Table C).	14.49	
17. Value of contributions at retirement (line 15 x line 16).	\$57,960	\$
<b>18. Estimated value of total savings at retirement (line 14 + line 17).</b>	<b>\$381,960</b>	<b>\$</b>

## 5 Savings withdrawal rate

	Jim and Maggie	You
<b>19. Income shortfall (same as line 11).</b>	<b>\$35,500</b>	<b>\$</b>
20. Estimated value of total savings at retirement (same as line 18).		
21. Divide line 19 by line 20 and enter the result.		
22. Multiply line 21 by 100 and enter the result in line 23.		
23. Anticipated withdrawal rate from savings in the first year of retirement.		

## 5 Savings withdrawal rate

	Jim and Maggie	You
19. Income shortfall (same as line 11).	\$35,500	\$
<b>20. Estimated value of total savings at retirement (same as line 18).</b>	<b>\$381,960</b>	<b>\$</b>
21. Divide line 19 by line 20 and enter the result.		
22. Multiply line 21 by 100 and enter the result in line 23.		
23. Anticipated withdrawal rate from savings in the first year of retirement.		

## 5 Savings withdrawal rate

	Jim and Maggie	You
19. Income shortfall (same as line 11).	\$35,500	\$
20. Estimated value of total savings at retirement (same as line 18).	\$381,960	\$
<b>21. Divide line 19 by line 20 and enter the result.</b>	<b>0.0929</b>	
22. Multiply line 21 by 100 and enter the result in line 23.		
23. Anticipated withdrawal rate from savings in the first year of retirement.		

## 5 Savings withdrawal rate

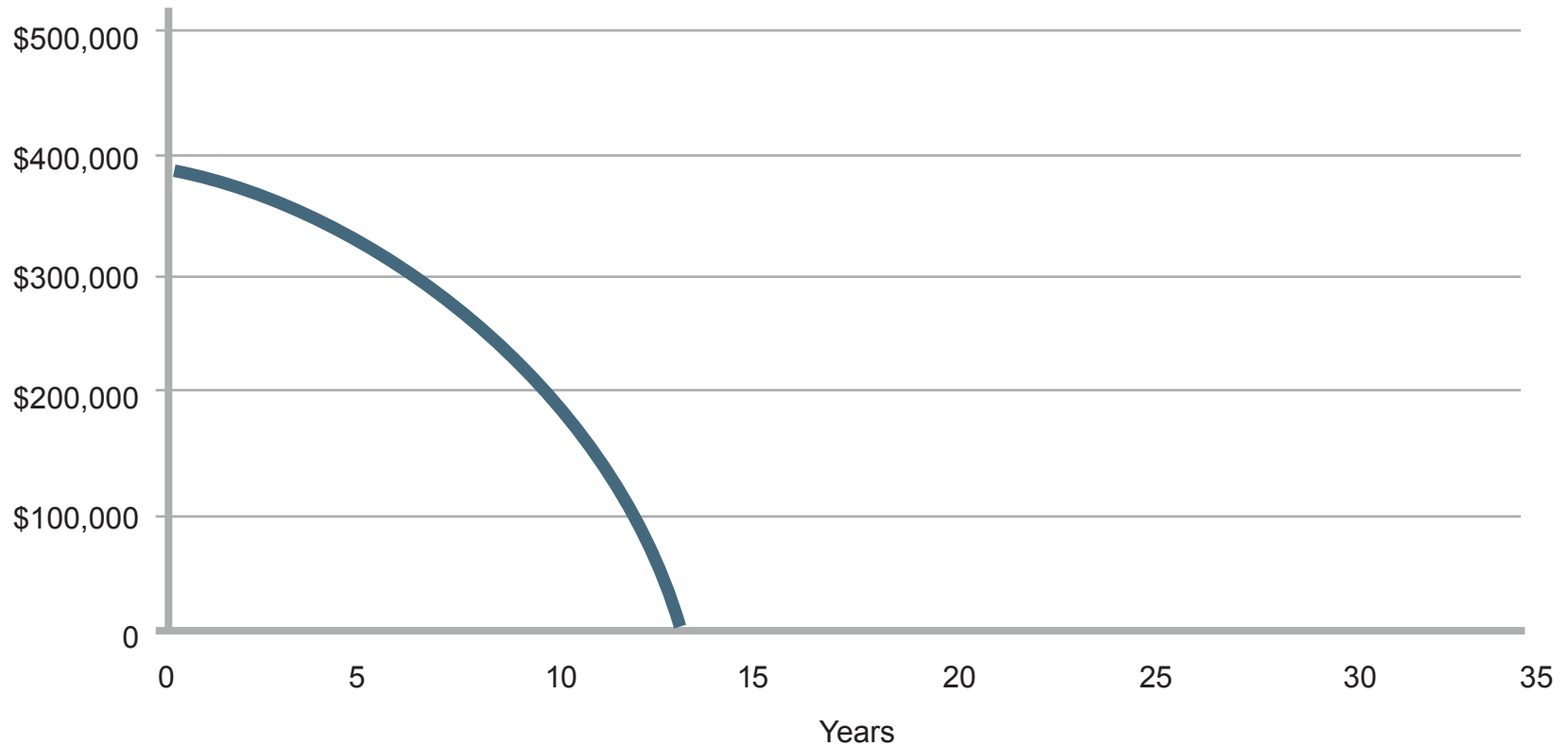
	Jim and Maggie	You
19. Income shortfall (same as line 11).	\$35,500	\$
20. Estimated value of total savings at retirement (same as line 18).	\$381,960	\$
21. Divide line 19 by line 20 and enter the result.	0.0929	
<b>22. Multiply line 21 by 100 and enter the result in line 23.</b>	<b>x 100</b>	<b>x 100</b>
23. Anticipated withdrawal rate from savings in the first year of retirement.		

## 5 Savings withdrawal rate

	Jim and Maggie	You
19. Income shortfall (same as line 11).	\$35,500	\$
20. Estimated value of total savings at retirement (same as line 18).	\$381,960	\$
21. Divide line 19 by line 20 and enter the result.	0.0929	
22. Multiply line 21 by 100 and enter the result in line 23.	x 100	x 100
<b>23. Anticipated withdrawal rate from savings in the first year of retirement.</b>	<b>9.29%</b>	<b>%</b>



# Jim and Maggie's money runs out



■ 7% average return

Assumptions: 7% average return, 9% initial withdrawal rate increased annually for inflation.  
This example is hypothetical and does not represent the returns from any particular investment.

# Sustainable rate of withdrawal

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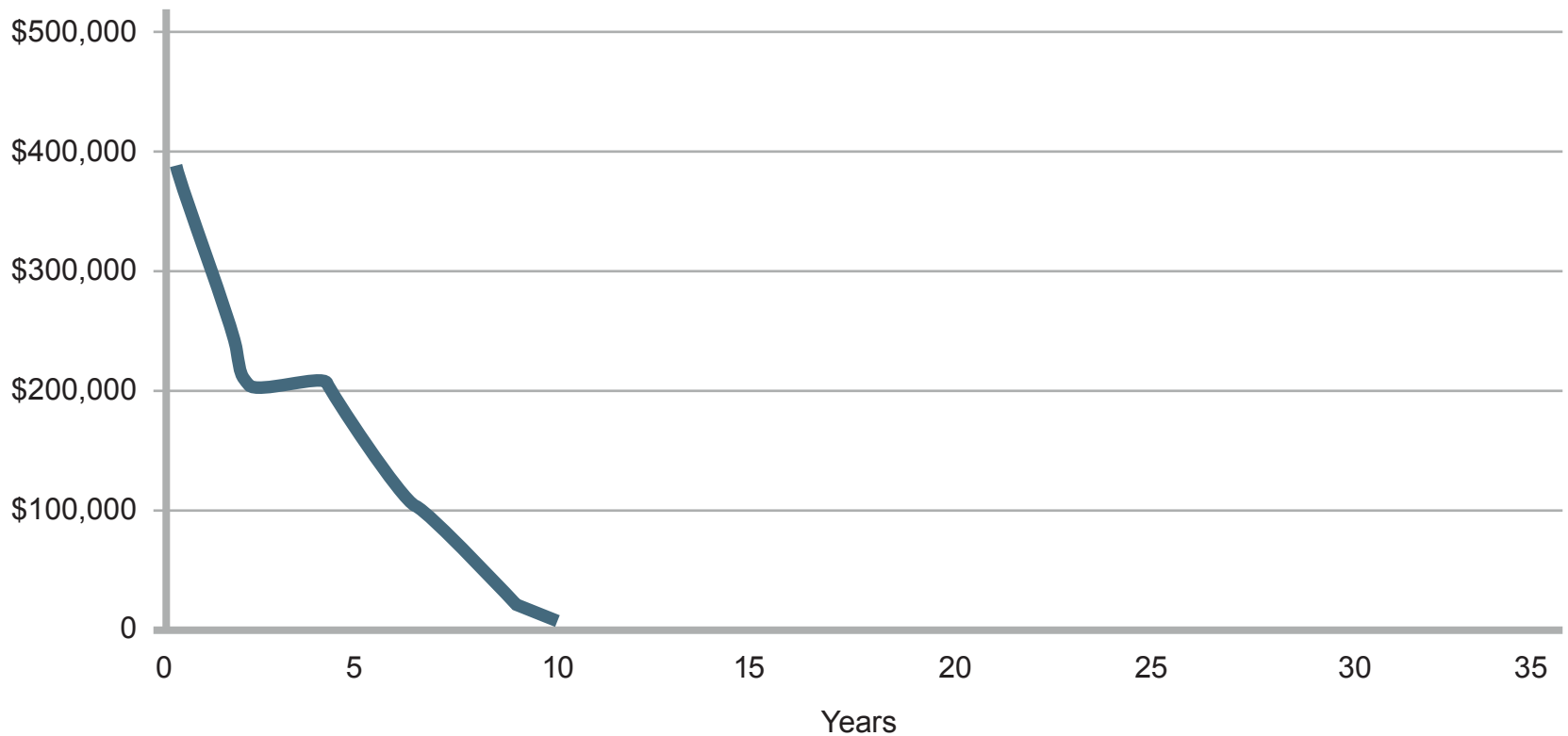
- Actual versus average returns.
- Sequence of returns.

# What if Jim and Maggie . . .

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- Retired in 1973?
- Invested in a mix of 60% stocks and 40% bonds?
- Had an initial withdrawal rate of 9%?

## If Jim and Maggie retired in 1973 . . .



■ 9% withdrawal

Assumptions: 9% initial withdrawal rate increased annually for inflation.

This example is hypothetical and does not represent the returns from any particular investment.

# What actually happened?

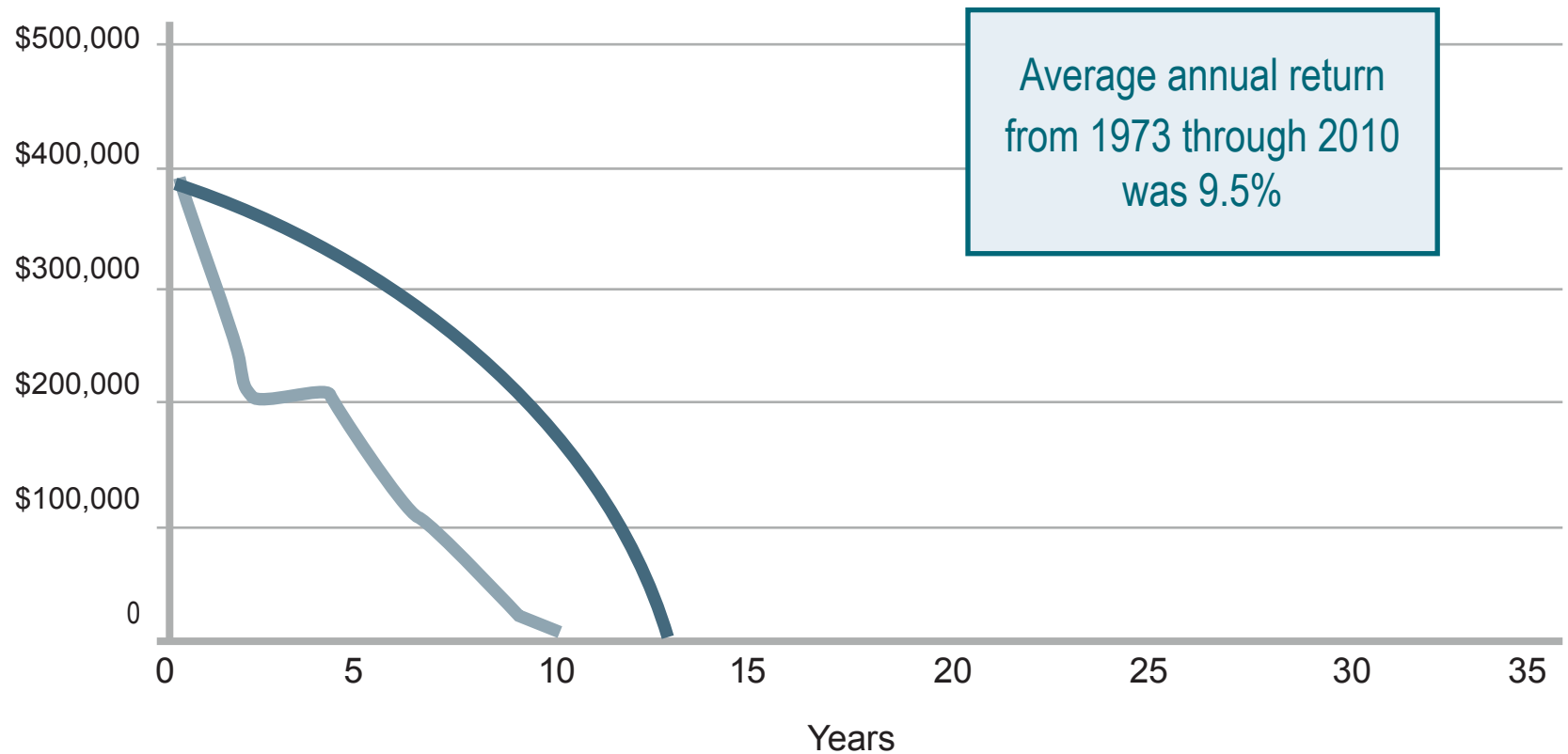
## Jim and Maggie's investment returns, 1973–2010

1973	−10.69	1986	15.76	1999	13.81
1974	−19.36	1987	2.47	2000	−1.88
1975	29.32	1988	13.92	2001	−3.21
1976	22.19	1989	23.21	2002	−8.41
1977	−0.37	1990	−0.21	2003	20.62
1978	6.12	1991	26.92	2004	9.31
1979	16.11	1992	8.34	2005	4.62
1980	21.29	1993	10.67	2006	11.16
1981	0.25	1994	−1.20	2007	6.10
1982	24.27	1995	29.26	2008	−20.10
1983	17.43	1996	14.18	2009	19.62
1984	7.89	1997	22.63	2010	13.00
1985	28.38	1998	17.53		

*The performance data shown represent past performance, which is not a guarantee of future results. When determining which index to use and for what period, we selected the index that we deemed to fairly represent the characteristics of the referenced market, given the available choices. For U.S. stock market returns, we use the Standard & Poor's 90 Index from 1926 to March 3, 1957; the Standard & Poor's 500 Index from March 4, 1957, to 1974; the Wilshire 5000 Index from 1975 to April 22, 2005; and the MSCI US Broad Market Index thereafter. For U.S. bond market returns, we use the Standard & Poor's High Grade Corporate Index from 1926 to 1968; the Citigroup High Grade Index from 1969 to 1972; the Lehman U.S. Long Credit Aa Index from 1973 to 1975; and the Barclays Capital U.S. Aggregate Bond Index thereafter. Index performance is not illustrative of any particular investment because you cannot invest in an index.*

Source: Vanguard.

# Average returns are misleading

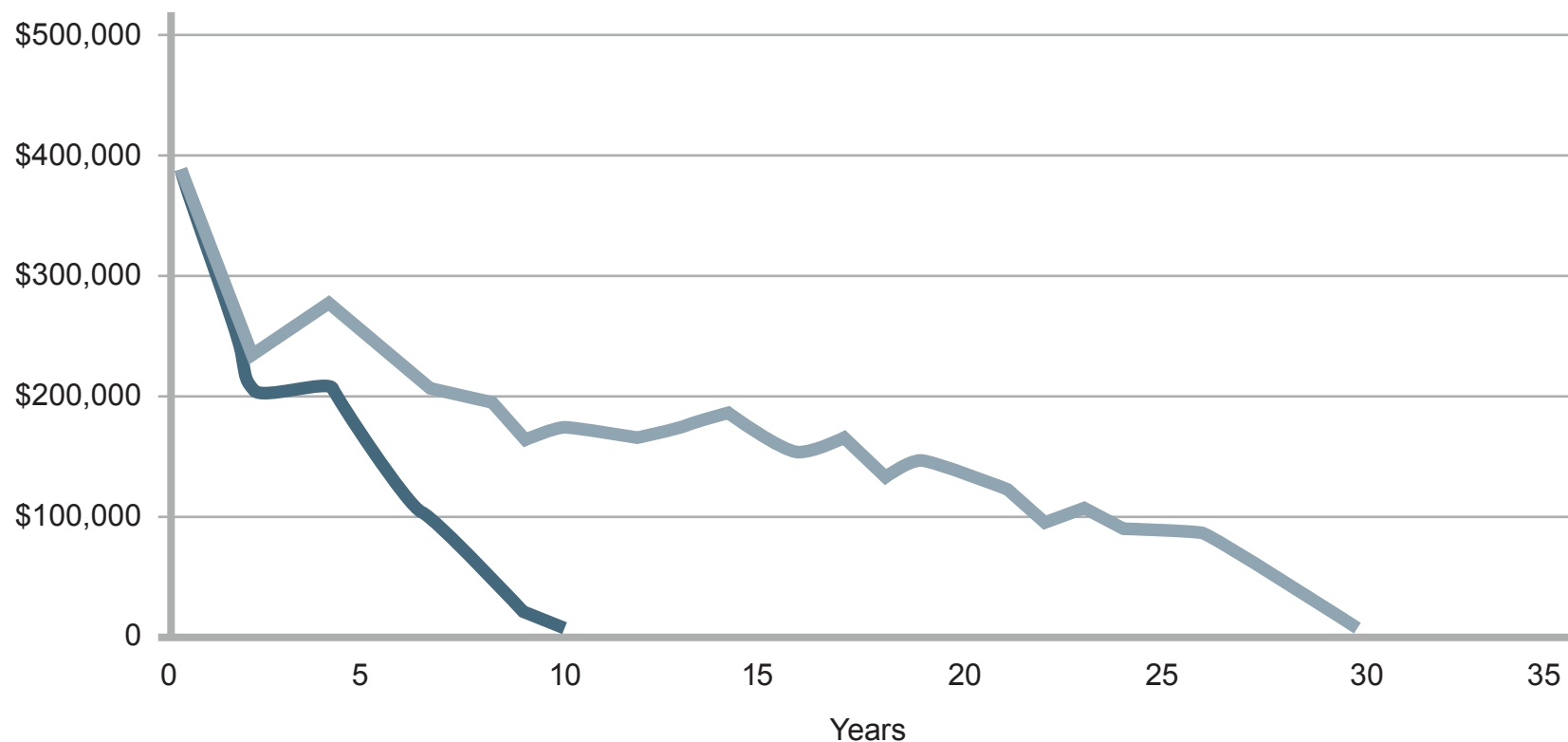


■ 7% average return

■ 1973 (60% stocks, 40% bonds)

Assumptions: 7% average return; 9% initial withdrawal rate increased annually for inflation.  
This example is hypothetical and does not represent the returns from any particular investment.

# What about a 5% withdrawal rate?

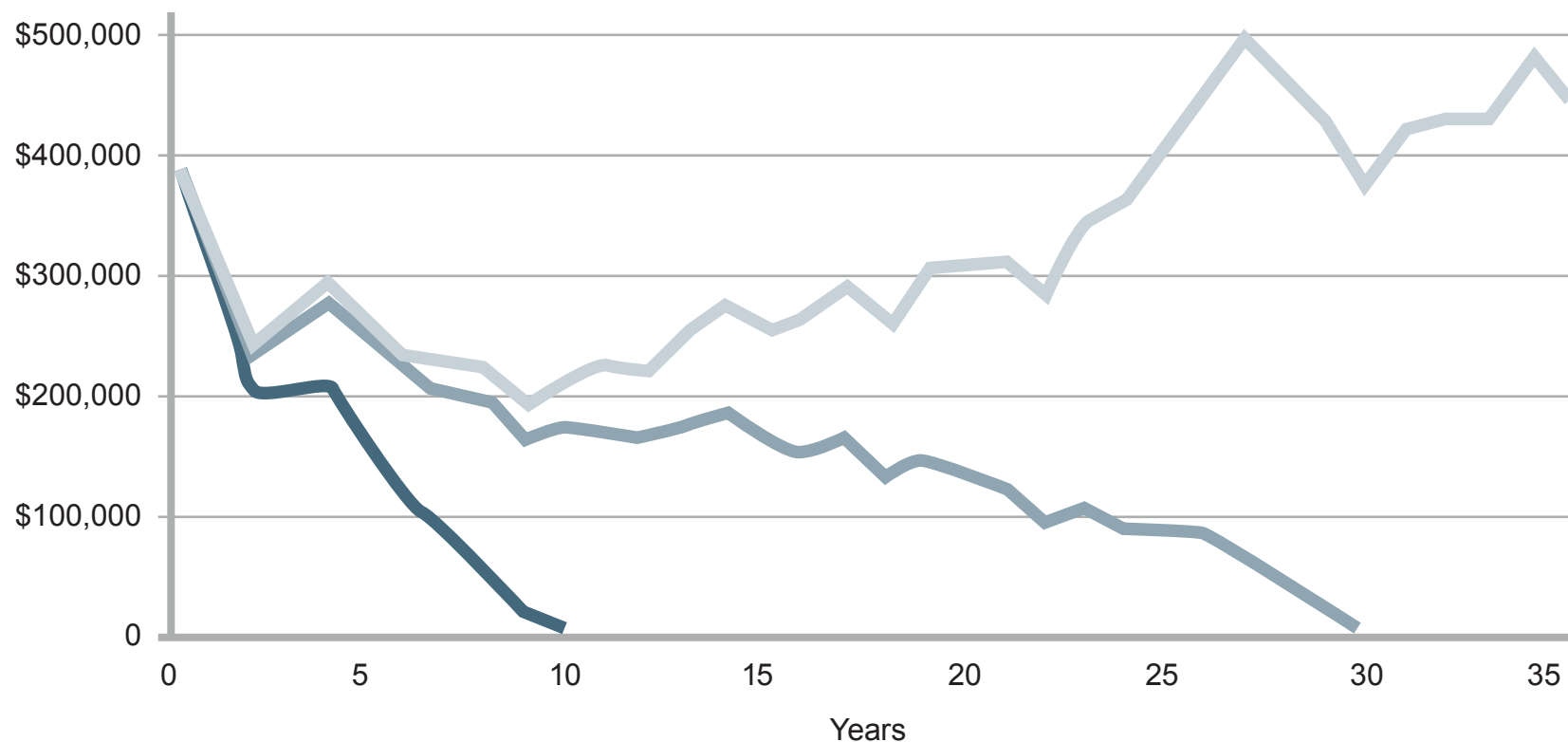


Initial withdrawal rates:

■ 9%      ■ 5%

Assumptions: 60% stocks, 40% bonds; beginning in 1973. Initial withdrawal rates increased annually with inflation. This example is hypothetical and does not represent the returns from any particular investment.

# What about a 4% withdrawal rate?



Initial withdrawal rates:

■ 9%    ■ 5%    ■ 4%

Assumptions: 60% stocks, 40% bonds; beginning in 1973. Initial withdrawal rates increased annually with inflation. This example is hypothetical and does not represent the returns from any particular investment.



## 6 Will your savings run out?

	Jim and Maggie	You
24. Do you anticipate withdrawing more than 4% of your savings in the first year of retirement (see line 23)?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

Consider . . .

40%

# How to save your retirement

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What can you do if you find yourself in a situation similar to Jim and Maggie's?

SECTION: 1 2 3 4 5 6

# Catching up on savings



# Start with your employer's Plan

- Pre-tax and after-tax contributions up to 50% maximum.
- Consider saving at least **12% to 15%** of your pay, including any contributions your employer may make.
- Tax-deferred savings.\*

\*When taking withdrawals from a tax-deferred plan before age 59½, you may have to pay ordinary income tax plus 10% federal penalty tax.

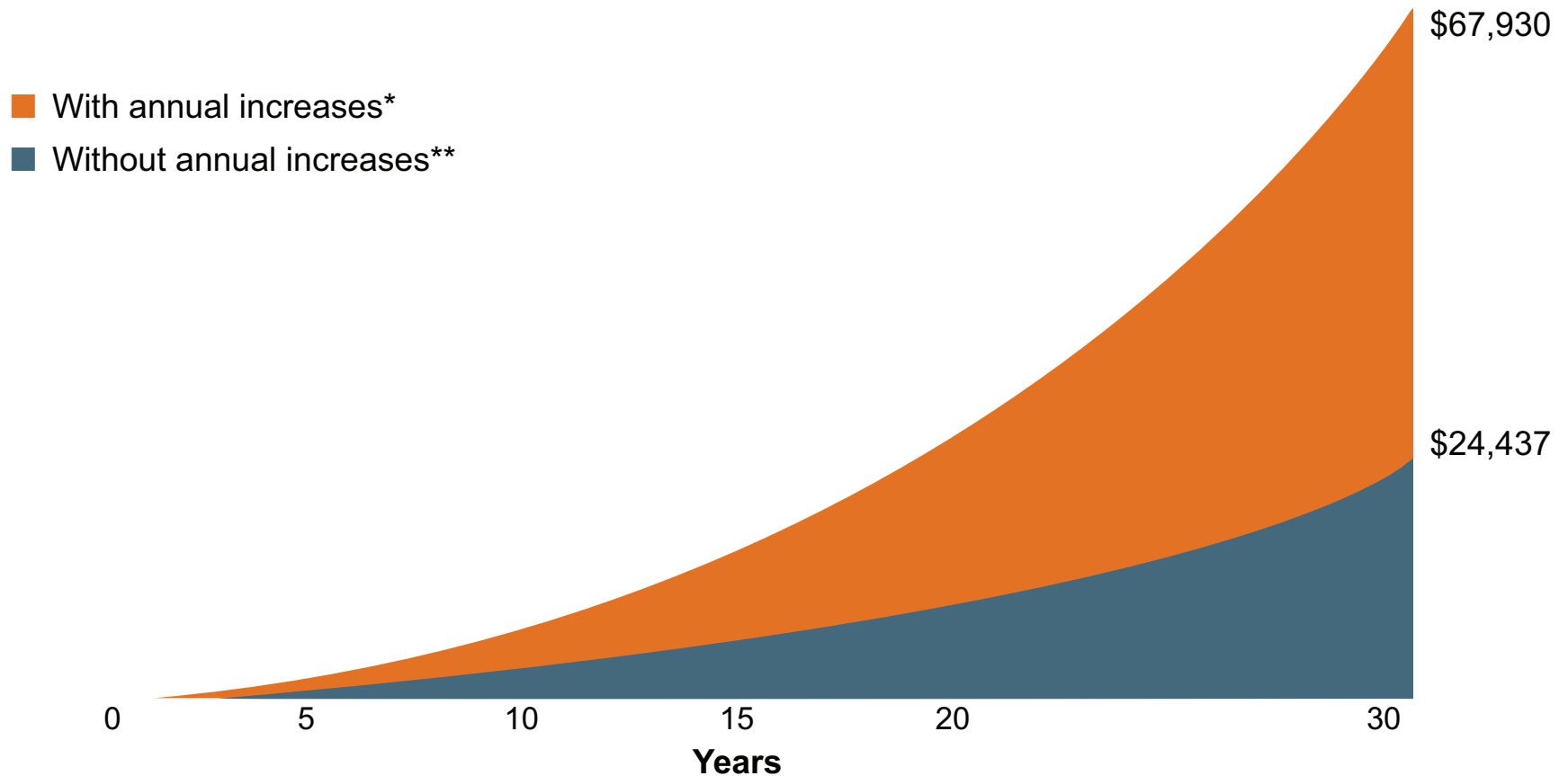
# Make the most of your employer's Plan

- Employer match.
  - 100% match on first 3%.
  - 50% match on next 2%
- Contribute 5% to get the maximum match.
- Vesting.
  - 100% after five years.

# Make the most of your employer's Plan

- 2012 maximum contribution: \$17,000.
- Catch-up contribution allowed for participants age 50 or older: \$5,500.
- Total contribution allowed for participants age 50 or older: \$22,500.
- Automatic annual increase feature.
  - Help you save more automatically.
  - Boost your rate annually in whatever month you choose.
  - Let you choose your annual increase election—from one to five percentage points.
  - Continue until you reach Plan cap of 50% or a maximum percentage you determine.

# The difference with annual increases



\*Assumes a \$30,000 salary, a 3% payroll deduction, a one-percentage-point annual increase (up to 10% cap), and an 6% average annual rate of return.

\*\*Assumes a \$30,000 salary, a 3% payroll deduction, and an 6% average annual rate of return.

This hypothetical illustration does not represent the return on any particular investment. The final account balances do not reflect any taxes or penalties that may be due upon distribution. Withdrawals from a tax-deferred investment before age 59½ are subject to a 10% federal penalty tax unless an exception applies.



## Next, consider saving in an IRA

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- Traditional IRAs.

# IRA contribution limits

- 2012 maximum contribution: **\$5,000**.
- Catch-up contribution allowed for participants age 50 or older: **\$1,000**.
- Total contribution allowed for participants age 50 or older: **\$6,000**.

# Traditional IRAs

- Eligibility requires earned income.
- Deductibility of contributions phased out if you participate in an employer's plan:
  - Single: \$58,000–\$68,000.
  - Married: \$92,000–\$112,000.
  - Spousal: \$173,000–\$183,000.
- Earnings grow tax-deferred.\*

Note: Income ranges represent adjusted gross income (AGI) for 2012.

\*When taking withdrawals from an IRA before age 59½, you will have to pay ordinary income tax plus a 10% federal penalty tax.

SECTION: 1 2 3 4 5 6

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# Covering a shortfall



# Getting back on track

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Consider these four strategies for improving your retirement outlook.

# Work longer



Working longer can improve  
the financial equation, but . . .  
you do want to retire, right?

## Work part-time

Earning money and staying  
busy have benefits, but . . .  
you give up some freedom.



## Reduce your expenses

3

Living on less may be possible, but . . .  
a tight belt is uncomfortable.



## Sell your home

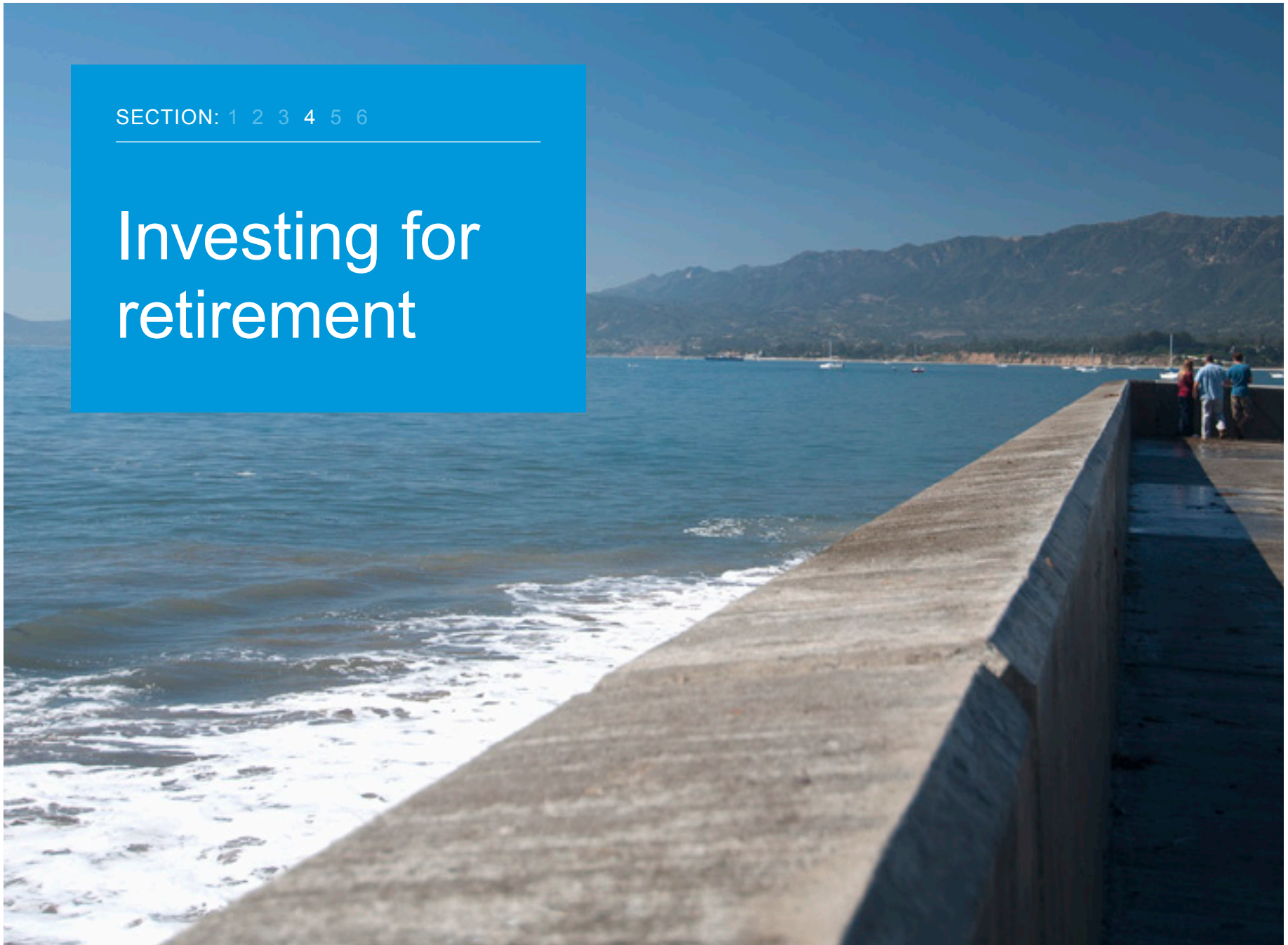
Downsizing may unlock  
equity, but . . .  
you have to live somewhere.

4

SECTION: 1 2 3 4 5 6

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# Investing for retirement



What's the right investment mix?



# Where should you invest?

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- You need a balance of investments that generates current income and future growth.
- If your savings don't grow, you'll lose purchasing power.

# Two investment strategies

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- Managed for you
- Managed by you

Please note that Vanguard handles only the portfolio rebalancing and portfolio construction for Target Retirement Funds.

\*Even though Target Retirement Funds simplify investing, you should still check your asset mix from time to time to ensure the portfolio is in line with your current situation.

# Two investment strategies

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- Managed for you:

- Select your retirement date.
- Choose your fund.
- Allow Vanguard to manage it.\*

- Managed by you:

Please note that Vanguard handles only the portfolio rebalancing and portfolio construction for Target Retirement Funds.

\*Even though Target Retirement Funds simplify investing, you should still check your asset mix from time to time to ensure the portfolio is in line with your current situation.

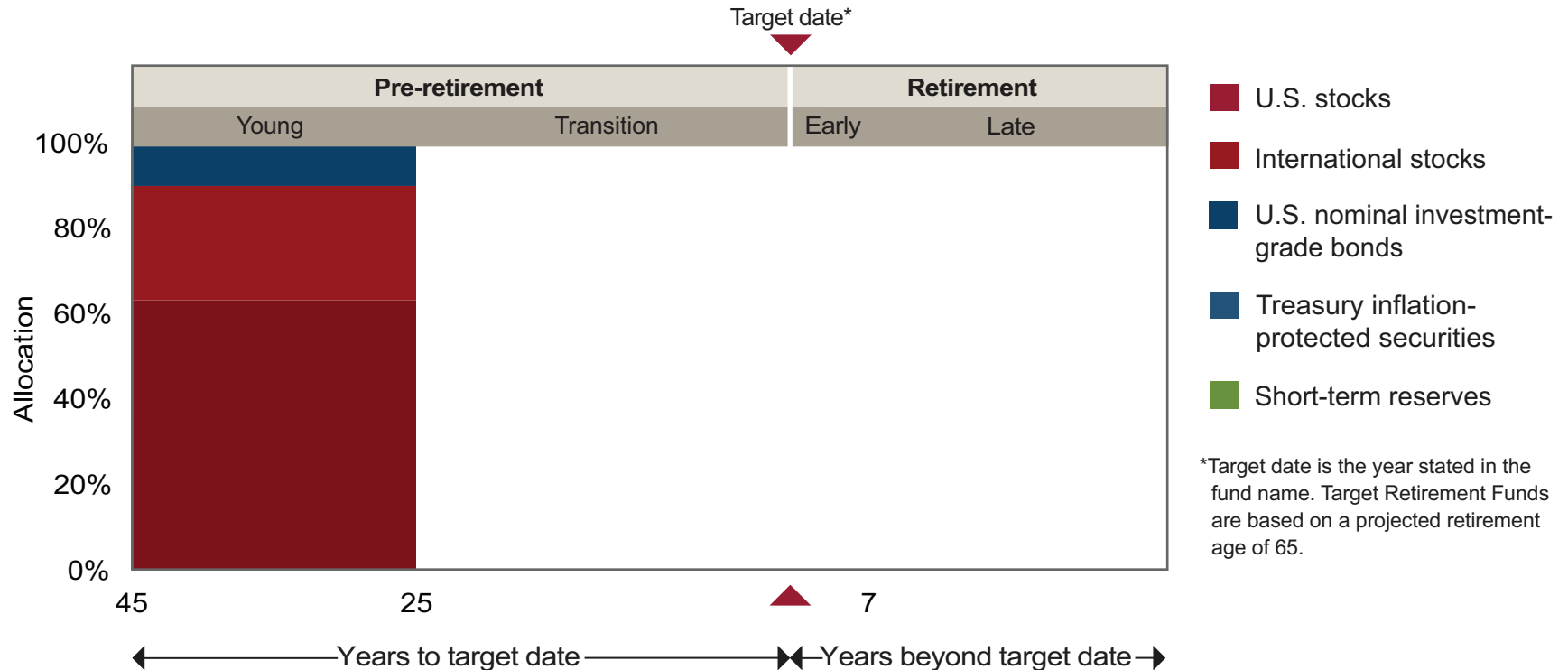
# Vanguard Target Retirement Funds

Consider the fund nearest your projected retirement date.

- Vanguard Target Retirement Income Fund
- Vanguard Target Retirement 2010 Fund
- Vanguard Target Retirement 2015 Fund
- Vanguard Target Retirement 2020 Fund
- Vanguard Target Retirement 2025 Fund
- Vanguard Target Retirement 2030 Fund
- Vanguard Target Retirement 2035 Fund
- Vanguard Target Retirement 2040 Fund
- Vanguard Target Retirement 2045 Fund
- Vanguard Target Retirement 2050 Fund
- Vanguard Target Retirement 2055 Fund
- Vanguard Target Retirement 2060 Fund

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in a Target Retirement Fund is not guaranteed at any time, including on or after the target date.

# Each fund's investment mix changes over time

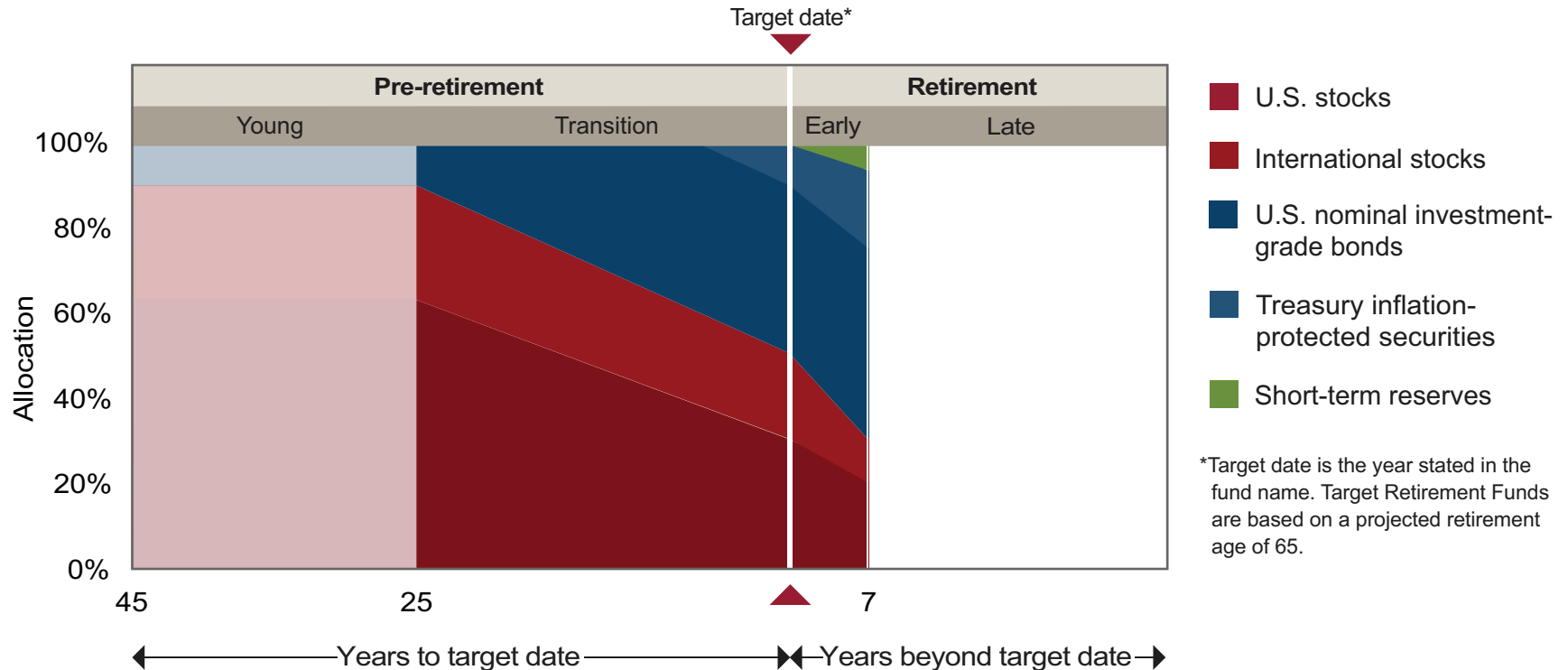


All investing is subject to risk. Investments in bond funds are subject to interest rate, credit, and inflation risk. While U.S. Treasury or government agency securities provide substantial protection against credit risk, they do not protect investors against price changes due to changing interest rates. While the market values of government securities are not guaranteed and may fluctuate, these securities are guaranteed as to the timely payment of principal and interest. Foreign investing involves additional risks including currency fluctuations and political uncertainty.

Source: Vanguard Center for Retirement Research.



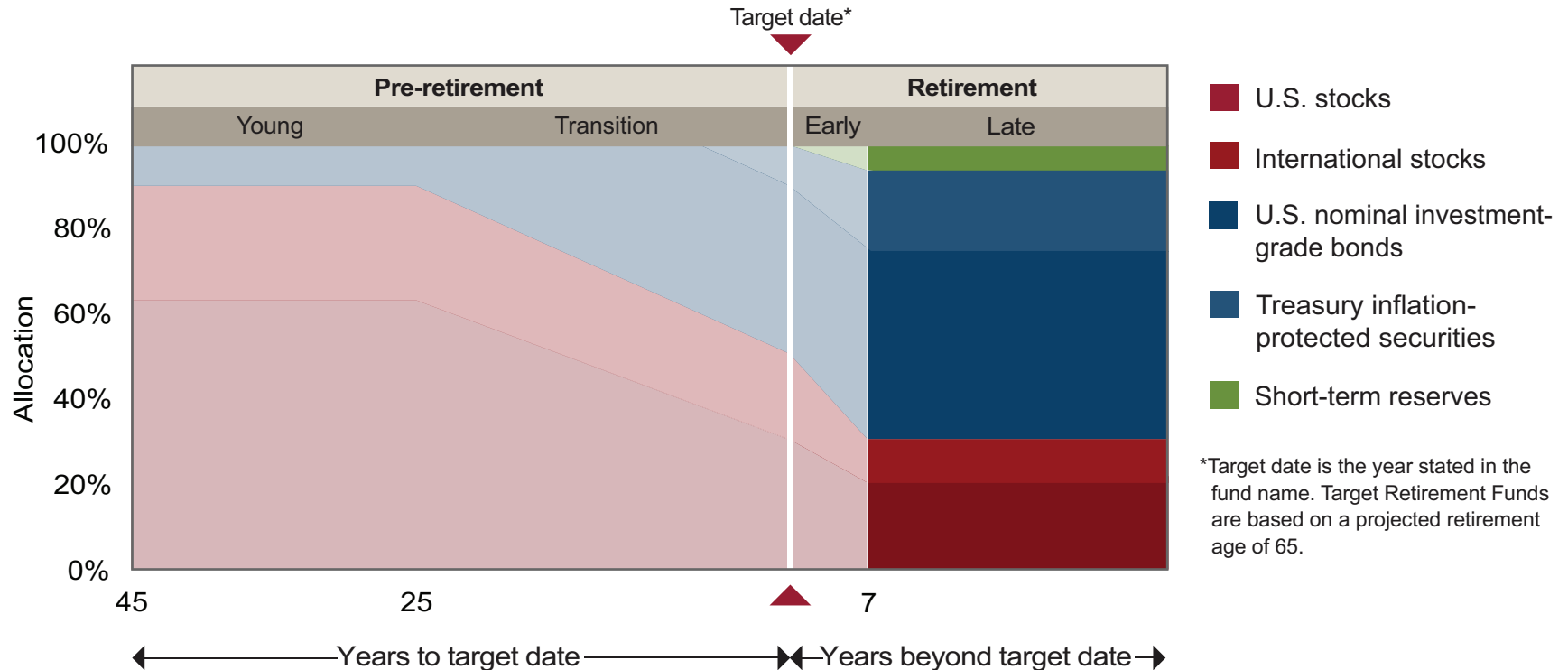
# Each fund's investment mix changes over time



All investing is subject to risk. Investments in bond funds are subject to interest rate, credit, and inflation risk. While U.S. Treasury or government agency securities provide substantial protection against credit risk, they do not protect investors against price changes due to changing interest rates. While the market values of government securities are not guaranteed and may fluctuate, these securities are guaranteed as to the timely payment of principal and interest. Foreign investing involves additional risks including currency fluctuations and political uncertainty.

Source: Vanguard Center for Retirement Research.

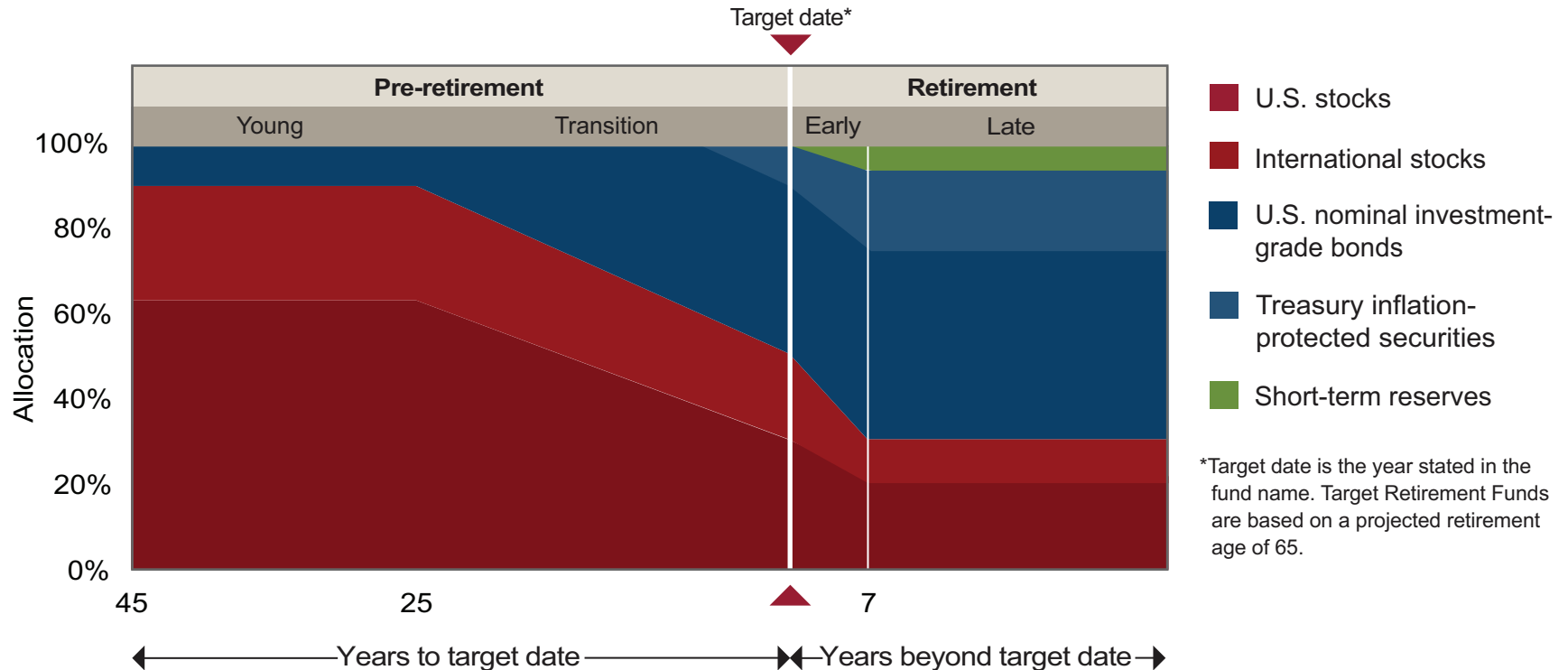
# Each fund's investment mix changes over time



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# Each fund's investment mix changes over time

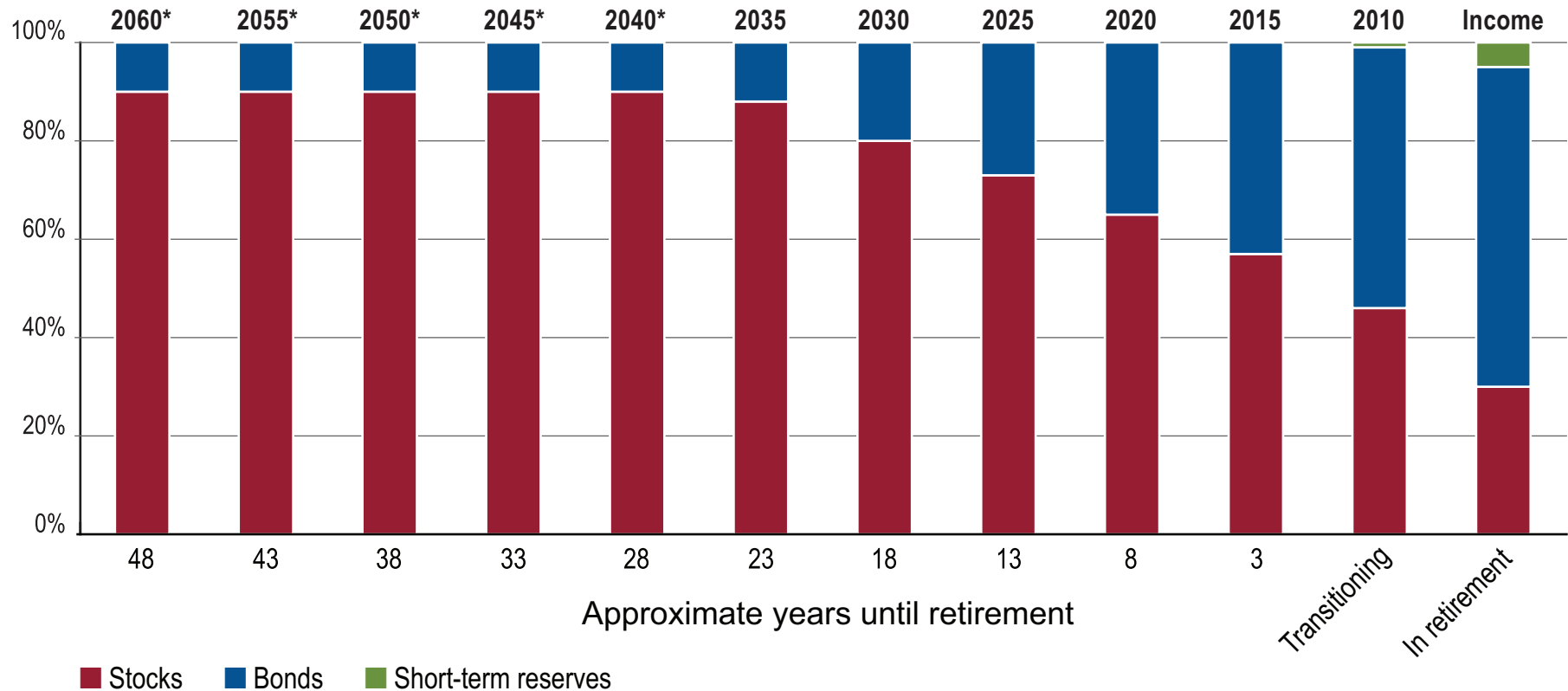


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Source: Vanguard Center for Retirement Research.

# Vanguard Target Retirement Funds

## Investment mixes



\*The target allocations of the funds dated 2040 through 2060 are currently identical; however, as time passes, each fund will gradually shift its emphasis toward a more conservative allocation depending on the maturity date of the fund.

Note: Allocation targets for each fund. Allocations for the date-specific funds will shift their emphasis (from stocks to bonds and short-term reserves) over time based on an assumed retirement age of 65.

If you think you'll retire significantly earlier or later, you may want to consider a fund with a more appropriate asset allocation.

All investing is subject to risk. Investments in bond funds are subject to interest rate, credit, and inflation risk.

# Key facts about Target Retirement Funds

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- Target-date funds are not guaranteed.
- The year stated in the name of the fund represents the year closest to the year you plan on retiring.
- The investment strategy is designed to evolve over time—including after the target date—and serve you throughout your retirement years.
- Saving enough is crucial.
- Target-date funds' prices will fluctuate with the stock and bond markets.
- You may want to reevaluate your fund selection if you change your retirement year.

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in a Target Retirement Fund is not guaranteed at any time, including on or after the target date.

# Two investment strategies

- Managed for you:
  - Select your retirement date.
  - Choose your fund.
  - Allow Vanguard to manage it.\*
- Managed by you:
  - Complete the “Investor questionnaire.”
  - Choose your investment mix.
  - Consider your funds.
  - Monitor your investment mix.

Please note that Vanguard handles only the portfolio rebalancing and portfolio construction for Target Retirement Funds.

\*Even though Target Retirement Funds simplify investing, you should still check your asset mix from time to time to ensure the portfolio is in line with your current situation.

# Investor Questionnaire

## Complete the Investor Questionnaire

Answer the questions on the following pages with one specific financial goal in mind, such as retirement. Don't use this questionnaire for goals that require you to spend all of your money for the goal within the next two years. Savings for short-term objectives should be invested in more stable investments—primarily short-term reserves.

To determine your investment approach for other goals, fill out the questionnaire as many times as you like, with a different goal in mind each time.

### Terms and Conditions of Use for Vanguard's Investor Questionnaire

The Investor Questionnaire is designed to help you decide how to allocate your assets in your retirement plan among different asset classes (stocks, bonds, and short-term reserves) and among different funds available through your plan. You're under no obligation to accept the suggested allocations provided by this questionnaire.

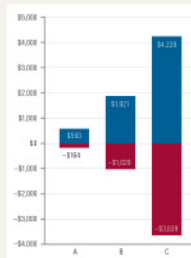
The allocations provided are based on generally accepted investment principles. There's no guarantee, however, that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of retirement income. All investments involve risks, and fluctuations in the financial markets and other factors may

cause declines in the value of your plan account. You should carefully consider all of your options before investing. The Investor Questionnaire is provided to you free of charge. It doesn't provide comprehensive investment or financial advice. Vanguard is not responsible for reviewing your financial situation or updating the suggestions contained herein. By using this tool, you acknowledge that you have read and understand the information above as well as the assumptions and limitations of the tool and that you agree to these terms and conditions of the tool.

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- I plan to begin taking money from my investments in . . .
  - ☐ A. Less than 1 year
  - ☐ B. 1–2 years
  - ☐ C. 3–5 years
  - ☐ D. 6–10 years
  - ☐ E. 11–15 years
  - ☐ F. More than 15 years
- As I withdraw money from these investments, I plan to spend it over a period of . . .
  - ☐ A. 2 years or less
  - ☐ B. 3–5 years
  - ☐ C. 6–10 years
  - ☐ D. 11–15 years
  - ☐ E. 16–20 years
  - ☐ F. 21+ years
- Generally, I prefer an investment with little or no ups or downs in value, and I am willing to accept the lower returns these investments may make.
  - ☐ A. I strongly disagree
  - ☐ B. I disagree
  - ☐ C. I somewhat agree
  - ☐ D. I agree
  - ☐ E. I strongly agree
- When the market goes down, I tend to sell some of my riskier investments and put the money in safer investments.
  - ☐ A. I strongly disagree
  - ☐ B. I disagree
  - ☐ C. I somewhat agree
  - ☐ D. I agree
  - ☐ E. I strongly agree

9. The chart below shows the highest one-year loss and the highest one-year gain on three different hypothetical investments of \$10,000.\* Given the potential gain or loss in any one year, I would invest my money in . . .
- ☐ A. Investment A
  - ☐ B. Investment B
  - ☐ C. Investment C



\*The maximum gain or loss on an investment is responsible to a credit. The ranges shown in this chart are hypothetical and are designed only to range an investment risk tolerance.

10. My current and future income sources (such as salary, Social Security, pension) are . . .

- ☐ A. Very unstable
- ☐ B. Unstable
- ☐ C. Somewhat stable
- ☐ D. Stable
- ☐ E. Very stable

11. When it comes to investing in stock or bond mutual funds for individual stocks or bonds, I would describe myself as . . .

- ☐ A. Very inexperienced
- ☐ B. Somewhat inexperienced
- ☐ C. Somewhat experienced
- ☐ D. Experienced
- ☐ E. Very experienced

## Your suggested investment mix

### Answer key

Use the following answer key to score your questionnaire. For example, if you answered "C" to question 1, give yourself 4 points. Use your score to find your suggested mix on the chart at right.

	A	B	C	D	E	F
1	0	1	4	7	12	17
2	0	1	3	5	8	–
3	0	1	3	5	7	–
4	1	3	5	8	–	–
5	0	5	3	1	0	–
6	5	4	3	2	1	–
7	5	4	3	2	1	–
8	1	3	5	8	–	–
9	1	3	5	–	–	–
10	1	2	3	4	5	–
11	1	2	3	4	5	–

Add up your scores and enter the total here:

### Your suggested investment mix

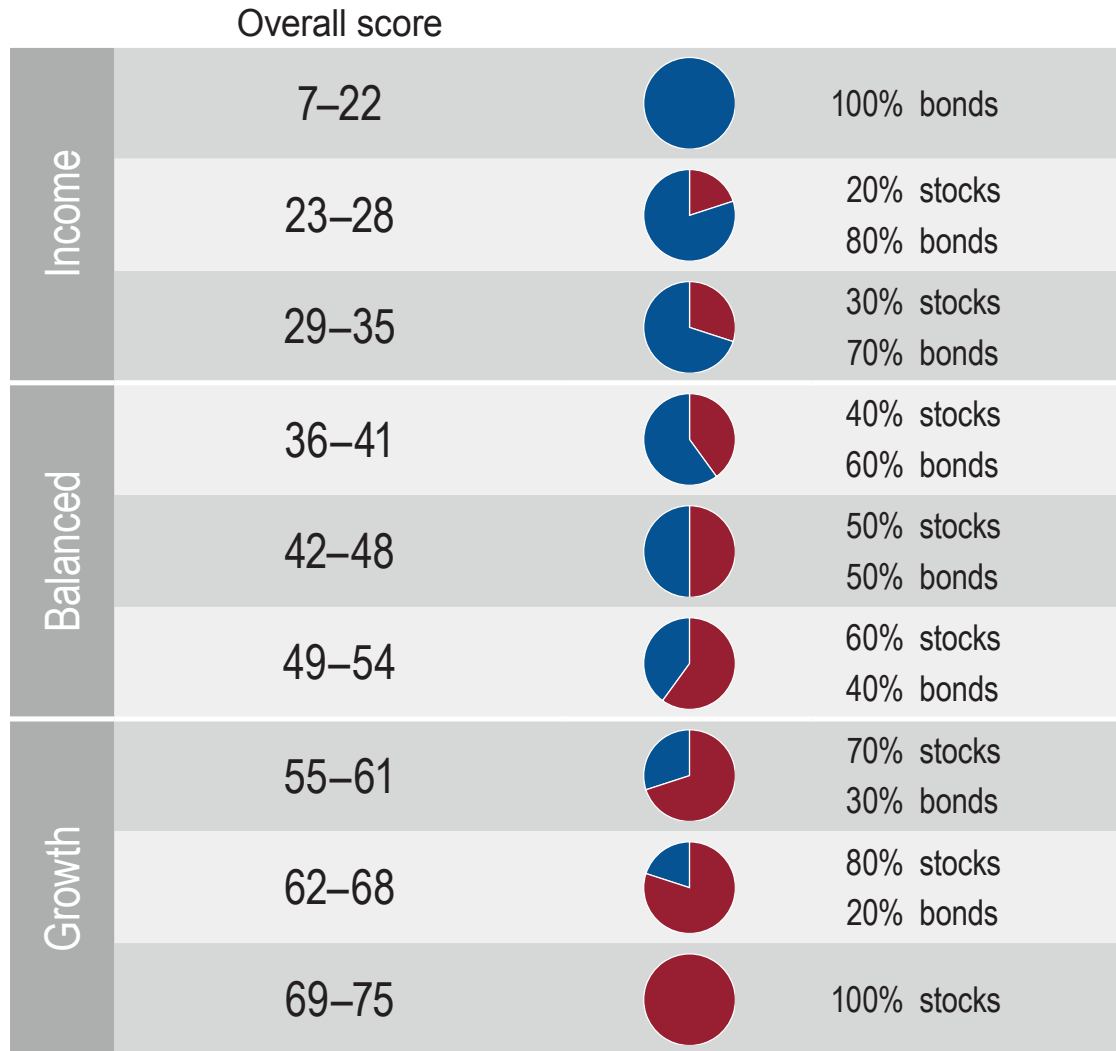
Find your score in the table below and then circle your suggested investment mix in the table below.

Overall score	Suggested mix
7–22 points	100% Bonds
23–28	100% Bonds
29–35	70% Bonds 30% Stocks
36–41	100% Bonds
42–48	100% Bonds
49–54	100% Bonds
55–61	100% Bonds
62–68	100% Bonds
69–75	100% Stocks

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# Investment mix matters

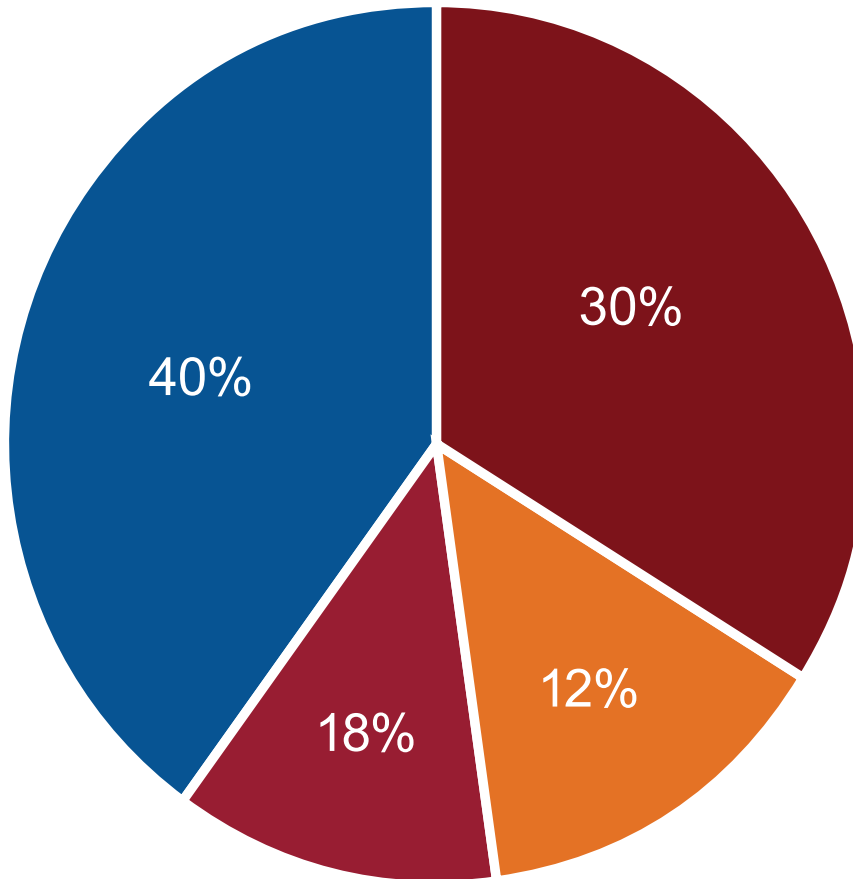


■ Stocks ■ Bonds

All investing is subject to risk. Investments in bond funds are subject to interest rate, credit, and inflation risk.



# Sub-asset allocation



## Balanced

60% stocks

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30% ■ Large-cap stocks  
12% ■ Mid- and small-cap stocks  
18% ■ International stocks

40% bonds

---

40% ■ Intermediate-term bonds

Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks.  
Foreign investing involves additional risks including currency fluctuations and political uncertainty.

# Core funds

## Short-term reserves

Vanguard Retirement Savings Trust II

## Bonds

Metropolitan West Total Return Bond Fund Class I

Vanguard Inflation-Protected Securities Fund

Vanguard Total Bond Market Index Fund

## Balanced (stocks and bonds)

Dodge & Cox Balanced Fund

All investing is subject to risk. While U.S. Treasury or government agency securities provide substantial protection against credit risk, they do not protect investors against price changes due to changing interest rates. Although the market values of government securities are not guaranteed and may fluctuate, these securities are guaranteed as to the timely payment of principal and interest. Investments in bond funds are subject to interest rate, credit, and inflation risk.

# Core funds

## Stocks

Allianz NFJ Small Cap Value Fund Class I (*closed to new investments*)

American Funds The Investment Company of America Class R-5

Hotchkis and Wiley Mid-Cap Value Fund Class I

Vanguard Capital Opportunity Fund

Vanguard Explorer™ Fund

Vanguard Mid-Cap Index Fund

Vanguard PRIMECAP Fund

Vanguard Small-Cap Index Fund

American Funds EuroPacific Growth Fund Class R-5

American Beacon Small Cap Value Fund Institutional Class

Vanguard 500 Index Fund

DFA Emerging Markets Value Portfolio

All investing is subject to risk. Prices of mid- and small-cap stocks often fluctuate more than those of large-company stocks. Stocks of companies in emerging markets are generally more risky than stocks of companies in developed countries. Foreign investing involves additional risks including currency fluctuations and political uncertainty.

# Monitor your mix: especially as retirement nears

---

- Remember why you are investing:
  - Short-term reserves for stability.
  - Bonds for income.
  - Stocks for growth potential (even in retirement).

# Monitor your mix especially as retirement nears

- Rebalance as necessary.
  - Redirect your Plan contributions.
  - Make a fund-to-fund transfer.

# Monitor your mix especially as retirement nears

---

Consider keeping two years' worth of expenses in short-term reserves.

# Risk versus potential reward

## Model portfolios 1926–2011

	Your asset allocation	Average annual return	Number of years with a loss	Average loss
Income	100% bonds	5.6%	13 of 86	–3.1%
	20% stocks, 80% bonds	6.7%	12 of 86	–4.0%
	30% stocks, 70% bonds	7.3%	14 of 86	–4.9%
Balanced	40% stocks, 60% bonds	7.8%	16 of 86	–5.9%
	50% stocks, 50% bonds	8.2%	17 of 86	–7.4%
	60% stocks, 40% bonds	8.7%	21 of 86	–7.7%
Growth	70% stocks, 30% bonds	9.0%	22 of 86	–9.2%
	80% stocks, 20% bonds	9.4%	23 of 86	–10.6%
	100% stocks	9.9%	25 of 86	–13.2%

*The performance data shown represent past performance, which is not a guarantee of future results. Average annual benchmark returns are calculated for the designated time period using applicable index returns (as noted below) that are weighted based on the suggested mix. When determining which index to use and for what period, we selected the index that we deemed to be a fair representation of the characteristics of the referenced market, given the information currently available. For U.S. stock market returns, we use the Standard & Poor's 90 Index from 1926 through March 3, 1957; the Standard & Poor's 500 Index from March 4, 1957, through 1974; the Wilshire 5000 Index from 1975 through April 22, 2005; and the MSCI US Broad Market Index thereafter. For U.S. bond market returns, we use the Standard & Poor's High Grade Corporate Index from 1926 to 1968; the Citigroup High Grade Index from 1969 to 1972; the Lehman Brothers U.S. Long Credit AA Index from 1973 to 1975; the Barclays Capital U.S. Aggregate Bond Index from 1976 to 2009; and the Spliced Barclays U.S. Aggregate Float Adjusted Bond Index thereafter. Index performance is not illustrative of any particular investment because you cannot invest in an index.*

Source: Vanguard.

SECTION: 1 2 3 4 5 6

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# Setting up for a smooth landing





# Maintaining tax deferral in retirement

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- Leave your money in the Plan.
- Roll over to an IRA.

# Distributions from your Plan

Will you owe income tax on your distribution?

- Generally 10% federal penalty tax before age 59½.
- 20% mandatory withholding for federal tax.
- You may owe additional federal, state, or local tax as well.

# What is an annuity?

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An annuity is an insurance contract. In return for a payment (the insurance premium) the insurance company sends regular, guaranteed income payments.\*

\*Product guarantees are subject to the claims-paying ability of the issuing insurance company.

## Free offer:

# Vanguard Financial Planning Services

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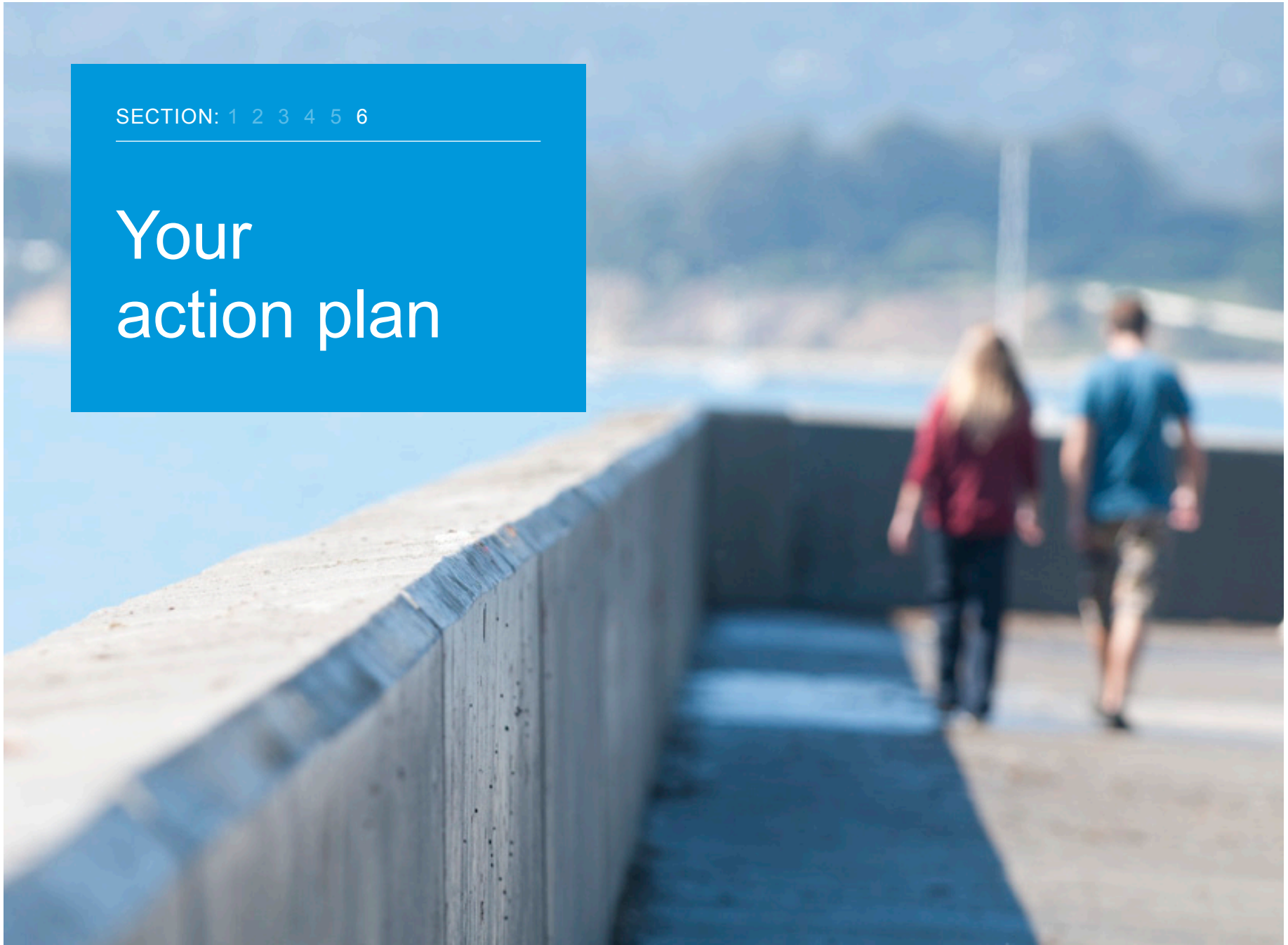
- Available to all participants age 50 or older.
- Partner with a Certified Financial Planner™ professional to develop a personalized plan that will:
  - Recommend an asset allocation.
  - Analyze your savings rate.
  - Estimate how much you will be able to spend annually in retirement.
- Prepare for a more comfortable future, whether you are retired or just about there.
- Call Vanguard at **800-310-8952** for more information.

Vanguard Financial Planning Services are provided by Vanguard Advisers, Inc., a federally registered investment advisor.

SECTION: 1 2 3 4 5 6

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# Your action plan



# Your action plan

- Obtain an estimate of your Social Security benefits.
- Complete your Spending Plan.
- Determine your retirement readiness.
- Save as much as you can.
- Get help if you need it.
- Use online tools at **[vanguard.com/smoothtransition](https://vanguard.com/smoothtransition)**.


# vanguard.com/smoothtransition

Make a smooth transition to retirement

http://fes.vanguard-education.com/jump/smoothtransition/201201/index.htm

Google

Retirement Plans



## Make a smooth transition to retirement

Find out whether your retirement savings are on track and if you are investing appropriately.

### retirement nest egg calculator

Are you on track to reach your retirement goals? How much would your nest egg grow? Answer a few questions to see a long-term projection. Then, by making a few changes, you can see the impact on your results.

How many years until you need to retire?

What is your portfolio balance today?

How much do you expect to contribute each year?

Run simulation

Range of projected portfolio balances, by year

Year	Low	High
2012	\$1,000,000	\$1,000,000
2015	\$1,000,000	\$1,000,000
2020	\$1,000,000	\$1,000,000
2025	\$1,000,000	\$1,000,000

Probability that your portfolio will last for 30 years:

### How long will your nest egg last? »

Get a projection of how long your retirement savings may last.

### Investor Questionnaire

Answer these questions to see how your investment goals align with your investment strategy. Then, by making a few changes, you can see the impact on your results.

To determine your investment goals, answer the following questions:

1. How long will you need to retire? (Select one)
2. How much do you expect to contribute each year? (Select one)
3. How much do you expect to contribute each year? (Select one)
4. How much do you expect to contribute each year? (Select one)

### Complete Vanguard's "Investor questionnaire" »

Are you invested appropriately? Find out in just a few minutes.

### Also of interest

- [Spending Plan Worksheet](#)
- [Retirement Income Calculator](#)

## Take the next step

If you need to make a change to your account, don't put it off. To increase your savings rate or make a change to how your balance or contributions are invested, [log on](#) to your account.

Questions? Call Vanguard Participant Services at **800-523-1188** Monday through Friday from 8:30 a.m. to 9 p.m., Eastern time.

Advisory services are provided by Vanguard Advisers, Inc. (VAI), a federally registered investment advisor and an affiliate of The Vanguard Group, Inc. (Vanguard).

# Vanguard on the web

- **retirementplans.vanguard.com**
  - View and manage your account.\*
  - Access My MoneyWhys® education and news center\*
  - Receive account statements, confirmation notices, and tax forms electronically.\*
  - Research funds.
- **Vanguard app** (for Android™, iPad®, iPhone®)
  - It's all at your fingertips.

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*For more information about any fund, including investment objectives, risks, charges, and expenses, you can download Vanguard fund prospectuses at [vanguard.com](http://vanguard.com). The prospectus contains this and other important information about the fund; read and consider the prospectus information carefully before you invest. You can also write Vanguard at P.O. Box 2900, Valley Forge, PA 19482-2900.*

Vanguard Retirement Savings Trust II is not a mutual fund. It is a collective trust available only to tax-qualified plans and their eligible participants. The collective trust mandates are managed by Vanguard Fiduciary Trust Company, a subsidiary of The Vanguard Group, Inc.

You can benefit from Vanguard's unique advantages:  
an unwavering focus on clients, exceptional value, and plain talk.



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